



Office of Inspector General

Audit Report

Low Documentation Loan Program

Santa Ana District Office

Report No. 7-7-F-009-020

July 8, 1997

Summary

An audit of LowDoc loans serviced by the Santa Ana District Office revealed loans with deficiencies in loan origination and servicing that were severe enough to have precluded loan approval under LowDoc guidelines. A statistical projection from the results of the loans sampled during the audit estimates that \$1.2 million was approved for loans that should not have been processed under LowDoc procedures.

The audit sampled 30 of 143 LowDoc loans valued at \$10 million, serviced by the Santa Ana District Office from the inception of the program in December 1993 to September 30, 1996. The most prevalent deficiencies included the following:

- Internal Revenue Service (IRS) verifications were either not requested or not reconciled to applicants' financial data.
- Joint payee checks for non-working capital disbursements were not used and use of proceeds was not verified.
- Equity injection requirements were not verified.
- Loans were approved for lenders not registered for the LowDoc Program.

Lenders indicated that loan officer errors were the primary cause for the deficiencies.

The audit recommended that, for the deficient loans, SBA request the lender to release SBA from the loan guarantee, deny the guarantee if the borrower defaults or initiate recovery actions where the loan guarantee has been honored. The audit also recommended that SBA establish procedures to ensure that LowDoc loans are only approved by registered lenders, notify LowDoc lenders of their responsibilities in processing and disbursing LowDoc loans and offer training and advice to those who need it. The District Director agreed with the report's findings and recommendations.

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SBA Webmaster, www@www.sba.gov

Content: OIG@sba.gov

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